

ORIGINAL

THIS AMENDMENT:	
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<input type="checkbox"/> Failed	<input type="checkbox"/> Not Offered
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2009 DEC 15 A 10:07



AZ CORP COMMISSION  
DOCKET CONTROL

**PIERCE PROPOSED AMENDMENT # 1**

DATE PREPARED: December 14, 2009

Arizona Corporation Commission  
**DOCKETED**

DEC 15 2009

COMPANY: Sunrise Water Co.  
DOCKET NOS: W-02069A-08-0406

DOCKETED BY	<i>mm</i>
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OPEN MEETING DATES: December 15, 16, 2009

AGENDA ITEM: U-11

Page 32, Line 2,

DELETE last sentence of paragraph.

Page 36, Line 9,

DELETE paragraph 88 and REPLACE with the following paragraphs:

88. This appears to be the first time that the Commission has been faced with the issue of whether a Class A or B water utility, which is also an S corporation, should be allowed to recover income-tax expense.<sup>1</sup> On balance we are persuaded that, based on the facts of this case, Sunrise should be allowed to recover this expense and that its revenue requirement should be grossed up for the effect of income taxes. It is true that Sunrise does not directly pay income taxes, but this is equally true, for example, for APS (corporate subsidiary) and for Arizona-American Water Company's Sun City Water Division (operating division). In each case, income-tax liability is passed on to the ultimate owner for payment. Further, Sunrise has demonstrated that it generated income-tax liability in the test year and that Mr. Campbell was responsible for the resulting income taxes.<sup>2</sup> Finally, Sunrise has a positive rate base that is sufficient for traditional ratemaking, as long as income-tax expense is reorganized.<sup>3</sup> Given these circumstances, it is appropriate for Sunrise to recover income-tax expense and to gross up its revenue requirement for the effect of income taxes.

89. We will approve Sunrise's alternate methodology for computing income-tax expense. This method assumes that the S corporation had just one shareholder (which it does), who filed a return as married filing jointly and derived all of his or her income from the regulated which is substantially less than that provided for water utilities with minimal or negative rate bases. utility. This results in a lower income-tax expense than if we computed the taxes as if Sunrise

<sup>1</sup> The Camp Verde case appears to have involved a Class C utility.  
<sup>2</sup> Ex. A-15 at 16:18-20  
<sup>3</sup> Absent recovery of income-tax expense, this order would only provide Sunrise an operating margin of 7.43%, which is substantially less than that provided for water utilities with minimal or negative rate bases.

were a stand-alone taxable entity. In addition, as proposed by Sunrise and recommended by Staff, we will allow recovery of accumulated deferred income tax ("ADIT") as an addition to rate base. However, we will calculate ADIT using the combined federal and state effective tax rate of 30.0791% from Sunrise's alternate methodology, rather than the corporate tax rate recommend by Sunrise and Staff. This results in the addition of \$99,891 in ADIT rather than the \$143,632 proposed by Sunrise and Staff. The resulting income-tax expense is \$49,045

RENUMBER subsequent paragraphs.

Page 38, Line 21,

DELETE the last sentence of existing Paragraph 9 1.

Page 40, Line 9,

DELETE first sentence of existing paragraph 98 and REPLACE with the following sentence:

We find the Sunrise's OCRB is \$1,140,093, calculated by modifying Staff's recommended OCRB of \$1,183,834 to exclude \$43,741 in ADIT.<sup>4</sup>

Page 40, Line 12,

DELETE the last sentence of paragraph 98 and REPLACE with the following sentence:

Thus, we find that Sunrise's FVRB is equivalent to its OCRB of \$1,140,093.

Page 40, Lines 20 through 22,

DELETE Paragraph 101 in its entirety.

Page 40, line 23,

DELETE first sentence of existing paragraph 102 and REPLACE with the following sentence:

Based on the adjustments made herein, we find that Sunrise should be permitted to recover operating income of \$114,009 and total operating expenses of \$1,344,262, for an overall revenue requirement of \$1,458,272.

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<sup>4</sup> \$43,741 is the difference between \$143,632 in ADIT recommended by Staff and \$99,891 allowed herein.

Page 40, line 27,

DELETE paragraph 103 and REPLACE with the following paragraph:

We find that it is appropriate to adopt Staffs recommended monthly usage charges and Staff's recommended commodity rate tier break-over points. However the overall revenue requirement established herein necessitates commodity rates higher than those recommended by Staff. With the rates adopted herein, the monthly bill for a customer served by a ¾" meter with average consumption will be increased from \$62.68 to \$64.09, representing an increase of \$1.41, or approximately 2.25 percent over current rates.

Page 43, Lines 13 through 25,

In each place in which the figures appear:

REPLACE "\$1.70" with "\$1.83"

REPLACE "\$2.47" with "\$2.66"

REPLACE "\$3.09" with "\$3.31"

Make all other conforming changes